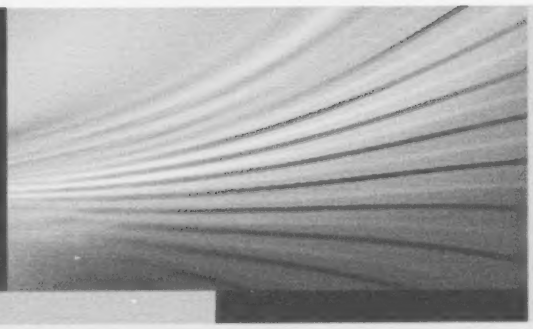
Ontario Energy Board

Annual Report 2011–2012



Ontario

Ontario Energy Board – by the Numbers

$4.17 per customer OEB operating expenses this year

$110.37 Average residential monthly electricity bill (at January 1, 2012)*

$70.54 Average residential monthly natural gas bill (at January 1, 2012)**

494 applications processed (includes rates, facilities, licences and corporate changes such as amalgamations)

ELECTRICITY

Agencies

Independent Electricity System Operator (IESO)
Ontario Power Authority (OPA)
Smart Metering Entity (SME)

Distributors and Transmitters

83 Distributors
12 Transmitters

Generators

204 Standard Generators
71 Under Standard Offer Program
16 Under Feed-in Tariff Program

Wholesalers, Retailers and Other Service Providers

105 Wholesalers
39 Retailers
17 Unit sub-meter providers

Total Distribution Assets $17,152,158,968

Total Distribution Customers 4,839,185

Residential Customers	4,354,381
General Service <50kW Customers	427,414
General Service (50–4999kW) Customers	56,828
Large User (>5000kW) Customers	144
Sub Transmission	418

NATURAL GAS

3 Distributors
30 Marketers

Total Distribution Assets $12,927,729,044

Total Distribution Customers 3,352,723

Enbridge Gas Distribution Inc.	1,985,547
Union Gas Limited	1,360,056
Natural Resource Gas (NRG)	7,120

* based on typical monthly consumption of 800 kWh
** based on typical monthly consumption of 183 m^3

Our Mandate

The Board's mandate is determined by the provincial government and is embodied in legislation, regulation and directives.

Our Mission

To promote a viable, sustainable and efficient energy sector that serves the public interest and assists consumers to obtain reliable energy services at reasonable cost.

Vision Statement

- The Board regulates the electricity and natural gas sectors in a manner that focuses on outcomes that are valued by consumers
- Under the Board's regulatory framework, distributors, transmitters and other regulated entities invest and operate in a manner that increases efficiency and productivity, and that provides consumers with a reliable energy supply at a reasonable cost
- The Board's own processes are efficient and cost effective and are understood by and accessible to both industry and consumers
- Energy consumers have the information they need to understand the value they receive for their expenditures on energy and to make choices regarding their own use of energy

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Letter to the Minister of Energy

I am pleased to submit the Ontario Energy Board's Annual Report for the fiscal year ending April 30, 2012.

The theme of the Board's 2011–2014 Business Plan was about efficiently and effectively responding to consumer interests. The initiatives in the plan are focused on increasing the efficiency of the Board's regulatory processes, improving our own internal processes, and, most importantly, enhancing protection for and information available to energy consumers. The Board has made significant progress in each of these areas over the past year.

Consumer protection was a major focus for the Board in fiscal 2011–2012. Over the past year, the Board conducted compliance inspections on all active electricity retailers and gas marketers (suppliers) in the province. As a result, the Board identified the need for proactive corrective measures to bring suppliers into compliance with their legal and regulatory requirements flowing from the *Energy Consumer Protection Act, 2010*. Administrative penalties were levied against a number of these companies, many of which also gave the Board formal assurances regarding future compliance.

In January 2011, following extensive consultation, the Board rolled out part of its Low-income Energy Assistance Program (LEAP), making emergency financial assistance available from electricity and natural gas utilities to low-income customers. The Board further enhanced protection to vulnerable consumers by enhancing customer service rules applicable to electricity utilities. These new rules took effect in 2011. The Board is now working toward formalizing similar rules for natural gas utilities. These rules are expected to be in place by early 2013.

This year also marked significant progress on the development of our Renewed Regulatory Framework for Electricity (RRFE). The RRFE will provide a comprehensive and sustainable framework that will help to manage bill impact on consumers while enabling utilities to make needed investments in modernizing our aging electricity network. Extensive stakeholder consultation on the framework was undertaken by the Board throughout 2011–2012. The Board expects to finalize the RRFE in 2012 for implementation in 2013.

The importance that the Board ascribes to improved efficiency and value for money was also exemplified in our approach to our own operations. The Board continues to be in compliance with the government's public sector restraint measures including the successful renewal of our Collective Agreement within the guidelines established by the *Public Sector Compensation Restraint To Protect Public Services Act, 2010*.

The Board's year-over-year expenses declined by two per cent in fiscal 2011-2012. Regulatory costs per customer also declined by three per cent, from $4.29 down to $4.12 per customer per year. Efficiency gains and financial stability have been achieved without compromising the Board's excellent record of performance. An independent third-party audit of the Board's 2011-2012 Business Plan objectives confirms a 99.95 per cent level of achievement on our strategic objectives. This high level of success was accomplished while managing the Board's high volume of core regulatory work, such as hearing and deciding more than 400 applications and assisting some 24,000 consumers through our Consumer Relations Centre.

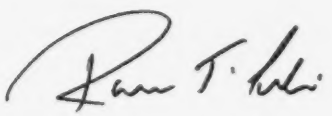
I am extremely proud of the Board's record of achievement over this past year.

I want to thank the members of our Board and all of our employees. Our many achievements in 2011-2012 could not have been realized without their dedication and commitment.

I also want to acknowledge the contributions of the many stakeholders who participate actively in the work of the Board. Their perspectives provide a valued contribution to the achievement of the Board's consumer and public interest objectives.

Delivering value to energy consumers is at the forefront of the Board's strategic vision. We have taken great strides towards this vision during 2011-2012. We look forward to continuing that progress on behalf of today's and tomorrow's energy consumers.

Yours sincerely,



Rosemarie T. Leclair
Chair and Chief Executive Officer

2011–2012 Highlights of the Year

Protecting and Informing the Consumer

Protecting the interests of consumers, including meeting their information needs, is a fundamental component of our work as a regulator. The Board carries out this responsibility in a number of ways.

Retail Market Compliance. Following on the enactment of the *Energy Consumer Protection Act, 2010*, the OEB focused its attention in 2011–2012 on ensuring that retailers and marketers (suppliers) are, in fact, complying with their new legal and regulatory obligations. Inspections were conducted on all active energy suppliers and orders were issued against 12 suppliers in breach of those obligations. In addition to receiving assurances of compliance from the companies, the Board levied close to $1 million in administrative penalties. These funds will be used to further consumer education activities.

Province-wide Customer Service Standards. The Board worked closely with electricity and gas utilities and consumer groups over the past year to establish new customer service standards that provide enhanced consumer protection on important customer service issues such as security deposits, managing payments and notice of disconnection. The needs of low-income customers are also being addressed through additional rules tailored more specifically for them. The new province-wide rules for electricity distributors came into effect on October 1, 2011. Natural gas distributors are expected to implement rules for their low-income customers in January 2013.

Outreach and Education. An informed consumer is an important objective for the OEB, and our enhanced outreach program has enabled us to connect with more Ontario energy consumers than ever before. In 2011–2012, the OEB outreach team participated in more than 25 events, across 12 municipalities in Ontario. Staff participated in a number of community-based events, appeared at trade shows and government services fairs, and visited legal clinics and social agencies. We presented information to seniors, low-income consumers, new Canadians, new homeowners and new tenants about their rights and responsibilities as energy consumers, and about resources available to help them manage their energy costs.

Engaging with Stakeholders

An essential element of the Board's approach to regulation is to ensure a fair, transparent and inclusive process, allowing those who operate in the energy sector and are affected by Board decisions to share their views with the Board. Engaging with stakeholders across the energy sector in an open, constructive and ongoing dialogue ensures the work of the Board is informed by a variety of perspectives.

There are a number of forums in which the Board regularly consults with its stakeholders. These include working groups, consultatives, conferences, webinars and research initiatives. During the past year stakeholders were invited to participate in a number of Board policy initiatives, including the *Renewed Regulatory Framework for Electricity* (RRFE), reviewing time-of-use price-setting, developing guidance for implementing Smart Grid, low-income customer service rules for the electricity sector, sub-metering code amendments and a new competitive process to select a company to ultimately build the East-West Tie transmission line in northwestern Ontario.

To provide an ongoing forum to facilitate the exchange of ideas and perspectives, the Board recently created two Chair Advisory Roundtables, one for industry and one for consumers. Twenty-seven leading professionals from industry, consumer associations and the academic and financial communities have agreed to participate on the Chair Advisory Roundtables to share their insights and expertise with the Board on current and emerging issues, as well as on future directions for the sector. These Roundtables provide for early strategic engagement between the Board and stakeholders, and allow the Board to be forward-looking and proactive in our approach to regulating the sector.

The Board's consultative processes reflect our commitment to building stronger and more effective relationships with our stakeholders, and to furthering our understanding of their needs and concerns.

Renewing the Regulatory Framework for Electricity

One of the major challenges facing the sector today – and the most significant driver of costs to consumers – is the scale of capital spending expected over the coming years as distribution utilities and transmitters move forward with investments to renew and modernize the electricity system and to accommodate new sources of generation. That spending will find its way into rate applications and, ultimately, onto the bills of Ontario's electricity consumers.

Under the RRFE, there will be a greater focus on outcomes such as those pertaining to customer service, operational efficiency, public policy obligations, and financial performance. Ultimately, the success of the RRFE will depend on an approach to rate-setting that better recognizes distributor diversity and is anchored in a coordinated and comprehensive approach to planning and a commitment to continuous improvement.

The Board launched the review and development of the RRFE in fall 2011, which was followed by a series of roundtable sessions attended by more than 100 executives representing industry, consumer associations and the academic and financial communities. A final report is anticipated to be released by fall 2012.

Promoting Conservation

Creating a culture of conservation is a priority for the Ontario government as set out in its Long-Term Energy Plan (LTEP). The Board has an important role in facilitating the achievement of conservation objectives through regulation of targets for distributors and price setting for consumers.

Conservation and Demand Management At the request of the Minister of Energy, and in support of the goals established in the LTEP, the Board established Conservation and Demand Management (CDM) targets for each electricity distributor. These targets set out reductions utilities are required to meet in both electricity consumption levels and peak provincial demand. CDM targets extend over a four-year period commencing January 1, 2011. Utilities are expected to achieve their reductions in electricity consumption through the delivery of CDM programs. The Board recently issued *Guidelines for Electricity Distributor Conservation and Demand Management* that provide guidance to distributors on certain provisions of the Board's CDM Code. Annual reporting against achievement will commence in the fall of 2012.

Demand-Side Management On the natural gas side, demand-side management (DSM) plans from both Enbridge Gas Distribution Inc. and Union Gas Limited were reviewed by the Board this year. For 2012 DSM initiatives, the Board approved an overall budget increase of approximately 11.5 per cent over 2011 (up $6.4 million to $61.9 million). That increase included dedicated funding for DSM programs tailored to low-income gas customers. The Board issued *Demand-Side Management Guidelines for Natural Gas Utilities*, which set out the framework to be used by natural gas utilities in developing their DSM plans for the next three years.

Time-of-use pricing Time-of-use (TOU) pricing for electricity was established in Ontario in 2005. The Board sets these prices bi-annually based on a forecast of how much it will cost to supply electricity to consumers over a six-month period. With the completion of the roll-out of smart meters this year, over 82 per cent of Ontario's low-volume electricity customers (residential and small business) were already on time-of-use pricing as of March 31, 2012. These TOU prices are an important way for consumers to understand, and then manage, their energy consumption during peak hours. Getting the pricing and the time periods right is essential to encouraging desired consumer behaviour. The Board undertook a preliminary review of its price-setting methodology in 2010. Given the brief period since the implementation, no changes were recommended at this time. The Board has, however, initiated further data collection to facilitate a further review with the benefit of two years of consistent data.

2011–2012 Highlights of the Year (continued)

Enhancing Organizational Effectiveness

Our people, processes, and systems all contribute to the effective discharge of our mandate. The Board is committed to efficient and effective processes delivering value for our stakeholders. As such, the Board's costs per customer have remained largely unchanged over the last three years, at just over $4 per year, declining by three per cent, from $4.29 to $4.12 per customer this past year. The Board continues to meet or exceed all of its service metrics, including timely responses to consumer requests. Delivering value, particularly in a period of increasing energy costs, is a priority for the Board.

Reviewing our Processes. The Board recognizes the need to continuously improve our regulatory processes with a view to improving their efficiency and effectiveness. In 2011–2012, work began on the following important initiatives.

Rate Applications and Hearing Processes – This end-to-end review of our rate applications and hearing process aims to identify quality improvements. The outcome of this review will be an improved and streamlined regulatory process that leverages regulatory best practices and is tailored to the Board's legislative requirements and operating environment.

Reporting and Record-keeping Requirements for Electricity – This review examines the collection and reporting of information licensees are required to submit to the Board, with a view to streamlining those requirements while ensuring that the content and frequency of reporting continues to provide the Board with information needed to fulfill its mandate effectively.

Consumer Touchpoints – This review considers how we currently connect with consumers in our adjudicative, consumer education and outreach roles, as well as in other work of the Board. The goal of this review is finding new or improved ways to enhance our communications and engagement with consumers.

Focusing on outcomes. The work of the Board is most effective when it results in desired outcomes. In 2011, the Board undertook to move from measuring its performance by *outputs* to *outcomes* that measure the impact of our work. To support this new approach, the Board developed a Policy Evaluation Framework to more systematically define the objectives and expected outcomes of Board initiatives. This will better ensure that we are measuring the impact of our work in a meaningful way.

Looking Ahead

The Board expects that value for energy dollars spent will continue to be a key priority for consumers and the Board going forward. Aligning consumer expectations and the needed investments in maintaining a reliable, sustainable and financially viable energy sector will present significant challenges and opportunities as industry continues to invest to modernize infrastructure and meet the needs of today's and tomorrow's consumers.

Many of the Board's initiatives from the past year will come to fruition in the next period, providing a solid foundation to respond to future needs. The Board will continue to be vigilant in carrying out its ongoing work in applications, consumer protection, communications and policy development in an effective and diligent manner.

Our Performance

For this business plan, the OEB implemented a new format using a balanced scorecard approach. Scorecard performance indicators are put in place to support four key focal points defined in the 2011 business plan objectives.

An independent audit firm, WREN Group, assessed the Board's performance in achieving the Business Plan initiatives over the past year. According to WREN Group, "The results show a **99.95 per cent success rate** in achieving success in the 2011 business plan performance. In summary, I found that OEB has effectively met their business plan objectives and performance targets for 2011, as planned."

The following table describes the four focal points for this current year. To support the four focal points OEB developed Categories, Initiatives and the Performance Measures to monitor and report on the achievement of the business plan objectives.

The following scorecard shows the Board's achievement.

Focal Point: Stakeholder and Consumer Initiatives

Informing consumers: Energy consumers have information that enables them to understand their rights, responsibilities and energy options, and to make informed decisions regarding their energy choices.

Improving programs and service for low-income consumers: Low-income energy consumers have access to programs and customer service rules specifically tailored to their needs.

Categories	Initiative	Performance Target	Audit Score (99.9%)
Consumer awareness	Implement communications and community outreach plan to provide information on rules relating to energy pricing, conservation, and the new consumer protection rules relating to retail energy contracting (4.1.1)	Implement plan	100.0%
	Board's own customer service complaint process is used effectively	90% of calls responded to in 10 days	100.0%
	Review the Board's consumer complaint processes (4.2.3)	Review complete	100.0%
Low-income customer programs and customer service	Implement low-income customer service rules for distributors and unit sub-meter providers (4.3.1)	Implement rules	100.0%
	Complete the implementation of the low-income customer emergency financial assistance program (4.3.1)	Implement program	100.0%
	As required, implement customer service rules for natural gas distributors and unit sub-meter providers (4.2.2)	Implement rules	100.0%

Our Performance (continued)

Focal Point: Industry Initiatives

Optimizing distribution infrastructure investment: Prudent and cost-effective investments in the electricity system provide consumers with a reliable and sustainable supply of electricity at a reasonable cost.

Setting rates and prices: Transmitters and distributors meet or exceed standards for operational and cost efficiency within a framework that considers bill impacts on consumers. Regulated electricity commodity prices recover supply costs and reflect policy objectives.

Enhancing consumer protection: Energy consumers have confidence that distributors, unit sub-meter providers, retailers, and marketers are adhering to applicable customer service and consumer protection rules.

Categories	Initiative	Performance Target	Audit Score (99.9%)
Setting rates and prices	Review and revise the TOU price methodology (1.2.1)	Review complete	100.0%
	Implement RPP price changes (1.2.1)	Implement price changes	100.0%
	Ensure compliance with smart meter deployment and mandatory TOU implementation (1.2.1)	Review complete	100.0%
	Review current rate-setting policies and establish distribution performance and cost efficiency standards (1.2.2)	Review complete and issue standards	100.0%
	Review the Board's rate-mitigation policy (1.2.2)	Review complete	100.0%
	Review and monitor distributors' progress toward CDM targets (1.1.3)	Review complete	100.0%
	Review alternative approaches for determining the payments to OPG (2.2.2)	Review complete and update guidelines	100.0%
	Issue DSM guidelines for next generation DSM plans (3.1.2)	Issue guidelines	100.0%
	Implement the guidelines through review and approval of distributor DSM plans (3.1.2)	Implement guidelines	100.0%
Industry monitoring and consumer protection 15%	Audit selected distributors (electricity) (1.2.3)	Audits complete. Issue guidance if required	100.0%
	Audit selected distributors (natural gas) (3.1.3)	Audits complete. Issue guidance if required	100.0%
	Monitor changes in the Ontario natural gas market and implement necessary regulatory responses (3.2.1)	Issue monitoring report	100.0%
	Audit active electricity retailers and gas marketers to assess compliance with applicable legal and regulatory requirements (4.2.1)	Audits complete	100.0%
Regulate infrastructure investment	Issue policy guidance for distributors' capital plans, including regional planning, reliability and total bill impact on consumers (1.1.1)	Issue policy guidance	100.0%
	Issue policy guidance for the review and approval of smart grid plans (1.1.2)	Issue policy guidance	100.0%
	Review the Ontario Power Authority's Integrated Power System Plan (2.1.1)	Review in progress	100.0%
	Review transmission projects brought before the Board (2.1.2)	Reviews complete	100.0%

Focal Point: Organizational Effectiveness

Supporting a strong workforce committed to public service: Employees understand what is expected of them and how their individual and collective performance contributes to the achievement of the Board's goals and objectives.

Categories	Initiative	Performance Target	Audit Score (99.9%)
Organizational development	Implement leadership competencies for management and executive team, and assess leadership talent against new competencies (5.1.2)	Implement competencies and assess talent	100.0%
	Review workforce plan (5.1.2)	Review complete	100.0%
	Implement employee engagement improvement plans (5.1.1)	Implement improvement plan	100.0%

Focal Point: Board Operations

Board processes are efficient and effective: Energy market participants receive service from the Board in accordance with commitments that are clear, fair and consistently applied.

Categories	Initiative	Performance Target	Audit Score (99.9%)
Operational effectiveness	Accurate budgeting	Budget within 10% of non-compensation spending	100.0%
	Increase investment revenues	Increase annual investment revenue	100.0%
	Market Operations Hotline response within metrics	85% of responses within 10 days	100.0%
	Determination in compliance cases within 150 days	85%	100.0%
	Budget & Business Plan submitted to MEI by end of January	On time	100.0%
	Annual Report delivered to MEI within 180 days of year-end	On time	98.4%
	Consumer calls metric for the Consumer Relations Centre	80% calls answered within 20 seconds, voicemails the next day, and consumer correspondence within 15 days	100.0%
	Establish outcome based evaluation	Policy evaluation framework implemented	100.0%

Report on Regulatory Costs

Consistent with its commitment to good corporate governance, the Board reports annually on the regulatory costs associated with oversight of Ontario's gas and electricity sectors. The following three measures are identified:

- three-year rolling average of operating expenses per end-use customer,
- three-year rolling average of operating expenses as a percentage of industry revenues, and
- three-year rolling average percentage change in operating expenses.

The following chart illustrates the rolling three-year averages for each of these regulatory cost measures.

	2011–2012	2010–2011	2009–2010
Electric Customers[a]	4,843,759	4,789,637	4,741,088
Natural Gas Customers	3,352,723	3,312,736	3,219,518
Measure #1: Operating Expense per Customer ($/yr/customer)	$ 4.17	$ 4.29	$ 4.10
3-Year Rolling Average	$ 4.18	$ 4.23	$ 4.17
Industry Revenue ($B)[b]	$ 23.5	$ 20.3	$ 21.6
Measure #2: Operating Expense as % of Industry Revenue	0.15%	0.17%	0.15%
3-Year Rolling Average	0.16%	0.16%	0.16%
Operating Expenses[c]	$ 34,148,859	$ 34,756,309	$ 32,618,479
Measure #3: Percentage Change in Operating Expenses	-1.75%	6.55%	-3.78%
3-Year Rolling Average	0.34%	2.71%	2.99%

Notes:

a) Source: Annual Reports.

b) Source: 2009-2010 to 2011-2012 estimates based on various OEB and Statistics Canada sources.

c) Source: Ontario Energy Board, Financial Statements. The figure used is Total Expenses as reported in the Statement of Operations and Net Assets. Total expenses include Board costs recoverable under Section 30 of the *Ontario Energy Board Act, 1998*, of $994,582 in 2011-2012, $1,598,355 in 2010-2011, and $1,218,034 in 2009-2010. Intervenor and stakeholder costs that regulated entities were ordered to pay are not a cost of the Board and are therefore not included in total expenses.

Commentary:

Measure #1: Operating Expenses per Customer
Operating expenses per customer decreased by $0.12 (3%) from 2010-2011 to 2011-2012, as explained in Measure #3 below.

Measure #2: Operating Expense/Industry Revenue
Industry revenue increased by 16% from 2010-2011 and 9% from 2009-2010. OEB operating expenses as a percentage of industry revenue decreased from 2010-2011 and is consistent to 2009-2010.

Measure #3: Percentage Change in Operating Expenses
Operating expenses decreased $600K (1.7%) from 2010-2011 to 2011-2012 reflecting continued efforts to reduce costs. Salary and benefits costs account for two thirds of the OEB's annual costs.

Section 30 Cost Awards

Section 30 of the *Ontario Energy Board Act, 1998*, states that the Board "may order a person to pay all or part of a person's costs of participating in a proceeding before the Board, a notice and comment process under section 45 or 70.2 or any other consultation process initiated by the Board." These costs may also include the costs of the Board and Stakeholders. Board costs represent costs incurred in relation to specific proceedings or consultation processes (e.g. consulting services, court reporting and external meeting sites) and these costs are reflected in the Board's financial statements. Regulated entities are requested to pay these costs to the Board in relation to the specific proceedings and consultation processes. Stakeholders costs represents costs that regulated entities were requested to pay intervenors in proceedings and to stakeholders in consultation processes. These costs do not appear in the Board's financial statements.

The following outlines the cost award activity for the 2011-2012 fiscal year.

	2011-2012
Board's costs recoverable under section 30 cost awards	
- natural gas proceedings	$ 397,663
- electricity proceedings	$ 596,919
Stakeholder costs recovered under section 30 cost awards for consultation processes initiated by the Board	
- natural gas proceedings	$ 445,950
- electricity proceedings	$ 484,100
Intervenor costs recovered under section 30 cost awards for applicant-driven proceedings	
- natural gas proceedings	$ 358,935
- electricity proceedings	$ 4,360,937
Total 2011-2012 Cost Award Activity	**$ 6,644,504**

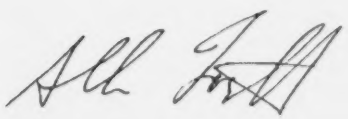
Financial Statements

Management's Responsibility

The Ontario Energy Board's management is responsible for the integrity and fair presentation of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods.

The Board maintains systems of internal accounting controls designed to provide reasonable assurance that reliable financial information is available on a timely basis and that the Board assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed and approved by the Board's Management Committee. In addition the financial statements have been audited by the Auditor General of Ontario, whose report follows.



Allan Fogwill
Managing Director, Planning & Business Services
July 25, 2012

Independent Auditor's Report

To the Ontario Energy Board

I have audited the accompanying financial statements of the Ontario Energy Board, which comprise the statement of financial position as at March 31, 2012 and the statements of operations and net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

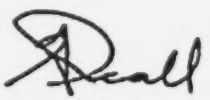
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Energy Board as at March 31, 2012 and the results of its operations, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
July 25, 2012

Statement of Financial Position

As at March 31, 2012

	2012	2011
ASSETS		
Current Assets:		
Cash	$ 5,820,653	$ 3,346,547
Investments – current (note 2c)	0	987,010
Accounts receivable	1,248,728	557,831
Regulatory process costs to be assessed	803,780	1,424,812
Deposits and prepaid expenses	218,844	243,693
Total Current Assets	8,092,005	6,559,893
Long-term Assets:		
Investments – long-term (note 2c)	3,954,647	3,999,434
Capital assets (note 5)	5,360,403	5,685,561
Total Long-term Assets	9,315,050	9,684,995
TOTAL ASSETS	**$ 17,407,055**	**$ 16,244,888**
LIABILITIES		
Current Liabilities:		
Deferred revenue (note 3b)	$ 1,714,893	$ 724,888
Accounts payable and accrued liabilities	4,702,258	4,582,286
Total Current Liabilities	6,417,151	5,307,174
Long-term Liabilities:		
Deferred revenue related to capital assets (note 3c)	3,330,178	3,393,371
Deferred rent inducement (note 8)	2,620,943	2,959,115
Pension liability (note 6)	354,374	409,793
Total Long-term Liabilities	6,305,495	6,762,279
TOTAL LIABILITIES	**$ 12,722,646**	**$ 12,069,453**
Operating Reserve (note 4)	$ 3,422,783	$ 4,175,435
Net Assets:		
Internally Restricted Net Assets (note 7)	1,261,626	0
TOTAL LIABILITIES, RESERVE AND NET ASSETS	**$ 17,407,055**	**$ 16,244,888**

See accompanying notes to financial statements

On behalf of the Management Committee:

Rosemarie Leclair
Chair

Cynthia Chaplin
Vice-Chair

Statement of Operations and Net Assets

Year Ended March 31, 2012

	2012	2011
REVENUES		
Recovery of Costs:		
General cost recovery (note 3a)	$ 31,386,461	$ 30,974,444
Amortization of deferred revenue related to capital assets	1,189,663	1,449,450
Regulatory process costs	994,582	1,598,355
Total Revenues from Recovery of Costs	33,570,706	34,022,249
Other Revenues:		
Administrative penalties	1,261,626	0
Licence fees	343,719	331,675
Interest income & unrealized gain or loss in investments	223,884	121,760
Miscellaneous income	10,550	8,125
Total Other Revenues	1,839,779	461,560
TOTAL REVENUES	**35,410,485**	**34,483,809**
EXPENSES		
Salaries and benefits	24,653,654	23,655,988
Consulting and professional	3,366,706	3,808,315
Premises	2,442,298	2,602,320
Publications, media and publishing	776,049	1,192,978
Information technology	639,645	773,684
Office and administration	543,248	639,589
Meetings, training and travel	537,596	633,985
Amortization	1,189,663	1,449,450
TOTAL EXPENSES	**34,148,859**	**34,756,309**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**1,261,626**	**(272,500)**
Net Assets, beginning of period (note 7)	0	272,500
NET ASSETS, end of period	**$ 1,261,626**	**$ 0**

See accompanying notes to financial statements

Statement of Cash Flows

Year Ended March 31, 2012

	2012	2011
Net inflow (outflow) of cash related to the following activities:		
OPERATING		
Assessment billed	$ 33,502,936	$ 30,285,914
Regulatory process costs revenue	994,582	1,598,355
Other revenues	1,839,779	461,560
Expenses	(34,148,859)	(34,756,309)
	2,188,438	(2,410,480)
Adjustment for Non-cash Expenses:		
Amortization of capital assets paid by Board	1,189,663	1,449,450
Amortization of leasehold improvements paid by landlord	261,965	261,965
	1,451,628	1,711,415
Changes in Non-cash Working Capital:		
Accounts receivable	(690,897)	(329,706)
Regulatory process costs to be assessed	621,032	(609,093)
Deposits and prepaid expenses	24,849	109,073
Operating reserve	(752,652)	(718,413)
Accounts payable and accrued liabilities	119,972	247,719
Pension liability	(55,419)	84,800
Deferred rent inducement	(338,172)	(338,172)
	(1,071,287)	(1,553,792)
Net Cash from Operating Activities	**2,568,779**	**(2,252,857)**
INVESTING		
Capital asset purchases	(1,126,470)	(1,704,179)
Investments	1,031,797	(4,986,444)
Net Cash Used in Investing Activities	**(94,673)**	**(6,690,623)**
NET CHANGE IN CASH	2,474,106	(8,943,480)
Cash, beginning of period	3,346,547	12,290,027
Cash, end of period	**$ 5,820,653**	**$ 3,346,547**

See accompanying notes to financial statements

1. Nature of the Corporation

The Ontario Energy Board (the "Board") is the regulator of Ontario's natural gas and electricity industries. The Board also provides advice on energy matters referred to it by the Minister of Energy and the Minister of Natural Resources.

Effective August 1, 2003, and pursuant to the *Ontario Energy Board Act, 1998* (the "OEB Act"), the Board was continued as a corporation without share capital empowered to fully recover its costs from natural gas and electricity industry participants.

As an agent of Her Majesty in right of Ontario, the Board is exempted from federal and provincial income taxes under the *Income Tax Act*.

The Fund is classified as a government not-for-profit organization for accounting purposes.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements include:

a) Revenue Recognition

Revenues received in the 2011–2012 fiscal year that relate to subsequent years are not recognized as revenue and are deferred. Recognition of revenue is matched to the expenses of the Board as follows:

- General cost recovery under s. 26 of the OEB Act related to the expenses of the Board is recognized as revenue to the extent that they are in excess of regulatory process costs, amortization of deferred revenue related to capital assets, and other revenues. Revenue assessed in excess of actual cost in 2011–2012 is referred to as a true-up (note 3b).
- Revenue from administrative penalties assessed against market participants under s. 112.5 of the OEB Act is recognized in the year the Board issues the enforcement order, for the amount identified in the order, provided that the order is not under appeal and a reasonable estimate can be made and collection is reasonably assured. If the order is appealed, revenue will be recognized in the year in which all rights of appeal are exhausted and the order becomes final. Revenue from administrative penalties is not used to reduce the costs assessed under the Board's Cost Assessment Model (note 7).
- Amortization of deferred revenue related to capital assets is recognized as revenue on the same basis that the underlying capital assets are amortized. Revenue related to capital asset expenditures is deferred because they have been billed in advance (note 3c).
- Regulatory process costs are recognized as revenue when related expenses are incurred.

Other revenues are recognized when received and receivable.

b) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following the acquisition, as follows:

Office furniture and equipment	5 years
Computer equipment and related software	3 years
Audio visual equipment	3 years
Leasehold improvements	over remainder of lease

c) Financial Instruments

Under Canadian generally accepted accounting principles, all financial instruments are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities.

All financial instruments are required to be measured at fair value upon initial recognition except for certain related party transactions. After initial recognition, financial instruments should be measured at their fair values, except for financial assets classified as held to maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost.

The Board has adopted the following classifications for financial assets and financial liabilities:

- Cash and investment assets are classified as held-for-trading and recorded at fair value, with changes in fair value during the period recognized in the Statement of Operations and Net Assets.
- Accounts receivable and regulatory process costs to be assessed are classified as loans and receivables and are valued at face value, which approximates fair value given their short-term maturities.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at face value, which approximates fair value given their short-term maturities.

d) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and recoveries for the year. Actual amounts could differ from these estimates.

e) Employee Pension Plans

The Board's full-time employees participate in the Public Service Pension Fund (PSPF) which is a defined benefit pension plan for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Board's annual payments to the Fund. Since the Board is not a sponsor of these funds, gains and losses arising from statutory actuarial funding valuations are not assets or obligations of the Board, as the sponsor is responsible for ensuring that the pension funds are financially viable. The Board's expense is limited to the required contributions to the Fund as described in note 6a.

The Board also manages a supplementary unfunded pension plan for a former chair as described in note 6b. The Board accrues its obligations and the related cost under this supplemental unfunded pension plan. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method, prorated on management's best estimate assumptions.

3. Industry Assessments for 2011–2012

During the 2011-2012 fiscal year, the natural gas and electricity industry participants were assessed estimated costs for the 2011-2012 fiscal year based on budgeted amounts. Amounts assessed in excess of actual costs are a true-up and are reported as current deferred revenue. The 2011-2012 true-up will be used to reduce the 2012-2013 fiscal year assessment. The calculation of the general cost recovery, true-up and deferred revenue is outlined in the following tables.

a) 2011-2012 General Cost Recovery

Salaries and benefits	$ 24,653,654
Consulting and professional	3,366,706
Premises	2,442,298
Publications, media and publishing	776,049
Information technology	639,645
Office and administration	543,248
Meetings, training and travel	537,596
Amortization	1,189,663
Total expenses	34,148,859
Regulatory process costs, amortization of deferred revenue related to capital assets and other revenues	(2,762,398)
General cost recovery at March 31, 2012	**$ 31,386,461**

b) 2011-2012 Current Deferred Revenue (2011-2012 True-up)

General cost recovery (note 3a)	$ 31,386,461
2011-2012 Capital expenditures paid by the OEB	1,126,470
Total assessment (actual)	32,512,931
Total assessment (budget)	34,227,824
2011–2012 Current Deferred Revenue (2011–2012 True-up)	**$ 1,714,893**

c) 2011-2012 Deferred Revenue Related to Capital Assets

Revenues related to capital asset expenditures are deferred because they have been billed in advance with the exclusion of leasehold improvements paid by the landlord, which were not included in the assessments. As part of the leasehold inducements included in the lease agreement, the landlord paid for $3,540,400 of leasehold improvements on behalf of the Board since the start of the lease on January 1, 2005.

Net book value of capital assets 2011-2012 (note 5)	$ 5,360,403
Net book value of leasehold improvements paid by landlord (note 5)	(2,030,225)
2011–2012 Deferred revenue related to capital assets	**$ 3,330,178**

4. Operating Reserve

As part of its self-financing status, the Board established an operating reserve, which is adjusted on an annual basis. The primary objective of maintaining this reserve is to fund the Board's operations in the event of revenue shortfalls or unanticipated expenditures. It is to be used for cash flow management and to support working capital requirements.

The operating reserve was initially set at a maximum of 15% of the annual assessment. Based on the review of cash flow history the Board reduced the operating reserve to 10% of the current annual funding requirement in fiscal year 2011-2012. This operating reserve level is expected to be maintained in fiscal year 2012-2013.

2011-2012 Operating Reserve

Operating reserve as at March 31, 2011	$ 4,175,435
Adjustment to the operating reserve (from 12.5% to 10%)	(752,652)
Operating reserve as at March 31, 2012	**$ 3,422,783**

The Board is not subject to any externally imposed reserve requirements.

5. Capital Assets

	Cost	*Accumulated amortization*	*Net book value 2012*	*Net book value 2011*
Office furniture and equipment	$ 2,804,730	$ 2,474,212	$ 330,518	$ 422,133
Computer equipment and related software	10,172,154	8,102,141	2,070,013	1,996,968
Audio visual equipment	870,087	858,013	12,074	24,148
Leasehold improvements paid by OEB	1,273,040	355,467	917,573	950,122
Leasehold improvements paid by Landlord	3,540,400	1,510,175	2,030,225	2,292,190
Total	**$18,660,411**	**$13,300,008**	**$ 5,360,403**	**$ 5,685,561**

6. Employee Future Benefits

a) The Board's contribution to the Public Service Pension Plan for the 2011-2012 fiscal year was $1,471,091 (2011 - $1,388,702) and is included in salaries and benefits costs on the Statement of Operations and Net Assets.

b) The unfunded supplemental pension plan for a former chair had an accrued total benefit obligation of $354,374 (2011 - $409,793) and an accrued benefit liability with respect to the Board of $354,374 (2011 - $409,793). No benefits were paid during the year (2011 - $0). The significant actuarial assumptions adopted at March 31, 2012 included a discount rate of 3.50% (2011 - 4.00%). The assumed pension commencement age has been changed to immediate retirement as at March 31, 2012. Any unrealized net actuarial gains and losses are recognized each year as they arise, therefore the total benefit obligation equals the actuarial benefit liability as at March 31, 2012. The Board's related pension gain was $55,419 (2011 - $84,800 expense) and was reflected in salaries and benefits costs.

c) The Board is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Province of Ontario, a related party.

7. Internally Restricted Net Assets

The internally restricted net assets at March 31, 2012 represent revenue from administrative penalties assessed against individual market participants under s. 112.5 of the *Ontario Energy Board Act, 1998*. According to the OEB Cost Assessment Model, revenue from administrative penalties will not be used to reduce payments under the general assessment. Revenue from administrative penalties plus any related interest revenue is internally restricted by the Management Committee to support activities relating to consumer education, outreach and other activities in the public interest.

The changes in internally restricted net assets are as follows:

Balance, beginning of the year	$	0
Administrative penalties issued in 2011-2012		1,255,883
Interest revenue from administrative penalties		5,743
Expenses incurred		(0)
Balance, end of the year	**$**	**1,261,626**

8. Deferred Rent Inducement and Operating Lease Commitments

The Board entered into a lease commitment for its office space during the 2004-2005 fiscal year, which included various lease inducements. Deferred rent inducement represents the benefit of operating lease inducements which are being amortized on a straight-line basis over 15 years, being the term of the lease.

The changes in deferred rent inducements are as follows:

		2012		2011
Balance, beginning of the year	$	2,959,115	$	3,297,287
Less: Amortization of deferred rent inducement netted against premises expense		(338,172)		(338,172)
Balance, end of the year	**$**	**2,620,943**	**$**	**2,959,115**

The minimum annual payments under the operating lease, expiring December 31, 2019, for the remaining 8 years and in aggregate are as follows:

2013	$	2,444,601
2014		2,491,278
2015		2,574,760
2016		2,730,491
2017		2,781,497
2018 and thereafter		7,919,401
Total	**$**	**20,942,028**

9. Financial Instruments

The Board's investments consist of two Ontario Government bonds with maturities of June 2013 and March 2014 and effective yields of 1.945% and 2.25% respectively. Both are highly liquid and are readily convertible into known amounts of cash.

It is management's opinion that the Board is not exposed to significant interest rate, currency, liquidity or credit risk arising from its financial instruments due to their nature.

10. Accounting Standards Change

Consistent with the Board's classification as a government not-for-profit organization, commencing with the March 31, 2013 financial statements, the Board will be adopting Public Sector Accounting Standards with the not-for-profit standards. Management anticipates there will be minimal impact on the Board's financial statements resulting from the conversion to these standards.

Ontario Energy Board Members

Chair & Chief Executive Officer

Rosemarie T. Leclair

Appointed: April 6, 2011
Term expiry: April 5, 2016

Vice-Chair

Cynthia Chaplin

Appointed: March 3, 2004
Term expiry: March 4, 2014

Ms. Chaplin has served as Vice-Chair since March 2010, and as Interim Chair from November 2010 until April 2011.

Paula Conboy

Appointed: March 1, 2010
Term expiry: February 28, 2015
Full-time Board member

Marika Hare

Appointed: April 30, 2010
Term expiry: April 29, 2016
Full-time Board member

Ken Quesnelle

Appointed: September 6, 2005
Term expiry: September 5, 2015
Full-time Board member

Paul B. Sommerville

Appointed: July 11, 2001
Term expiry: July 10, 2012
Full-time Board member

Cathy Spoel

Appointed: October 13, 1999
Term expiry: February 3, 2014
Part-time Board member

Karen Taylor

Appointed: September 15, 2010
Term expiry: September 14, 2012
Full-time Board member

Management Team

Aleck Dadson
Chief Operating Officer

Mary Anne Aldred
General Counsel

Lynne Anderson
Managing Director,
Applications & Regulatory Audit

Suzanne Cowan
Managing Director,
Communications &
Stakeholder Relations

Allan Fogwill
Managing Director,
Planning & Business Services

Peter Fraser
Managing Director,
Regulatory Policy

Karim Karsan
Managing Director,
Compliance & Consumer Protection

Julie Mitchell
Managing Director,
Human Resources

Complete bios of all our Board members and Executive Team are available on our website:
www.ontarioenergyboard.ca

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Toll-free within continental North America: 1-888-632-6273
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The Board's website is located at
www.ontarioenergyboard.ca

To reach the OEB Consumer Relations Centre, call:
Toll free: 1-877-632-2727
In Toronto: (416) 314-2455

To reach the OEB Market Operations Hotline, call: (416) 440-7604

Copies of this annual report, as well as other Board publications, may be obtained from the Board.